

Philippine Economic *Outlook*

MAY 1999

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Introduction



The Asian financial crisis in the Philippines was a markedly different experience from that in other countries in the region. There are a number of reasons why. First and foremost, the Philippines missed out on the region's decade of 8% or better GDP growth. Having only taken off in the mid-1990s, the Philippine economy did not have as far to fall when the region hit the economic equivalent of an air pocket.

Second, foreign borrowing was far less important to the Philippine private sector than was the case in its neighbors, partly because earlier Philippine crises had made the country less bankable. Corporate foreign currency debt was modest and was owed by oil companies, utilities and other companies that either earn foreign currency or have domestic currency price adjustment mechanisms. Domestic banks financed foreign currency lending with domestically owned foreign currency accounts that were less flight-prone than the short-term offshore borrowings that banks in other Asian countries relied upon.

Third, a decade of economic adversity had made Philippine firms and banks more cautious than those in some other Asian countries. Recent memory of 30% interest rates in the early 1990s made both borrowers and lenders more careful about debt.

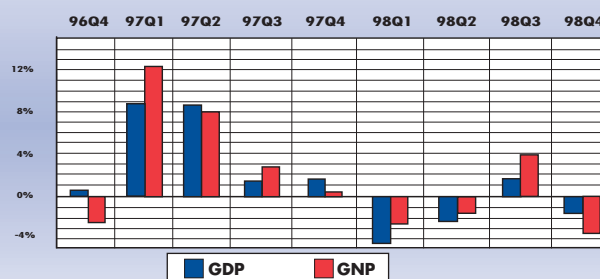
Fourth, the Philippines is still in the early stages of the export growth wave, financed by foreign investment in electronics and other export-oriented industries. Philippine exports grew 17% in 1999, the highest growth rate in the region in a year that saw many countries' exports actually decline despite the substantial depreciation of their currencies.

Fifth, reforms introduced in the 1990s to capital markets and to the supervision of banks made the financial system more resilient than in some of the Philippines' neighbors. The banking system remains sound and well capitalized despite the rising level of bad debts. Thailand, Indonesia and Korea all have banking systems that are bankrupt in all but name. Economic recovery will be difficult until their financial systems are rebuilt.

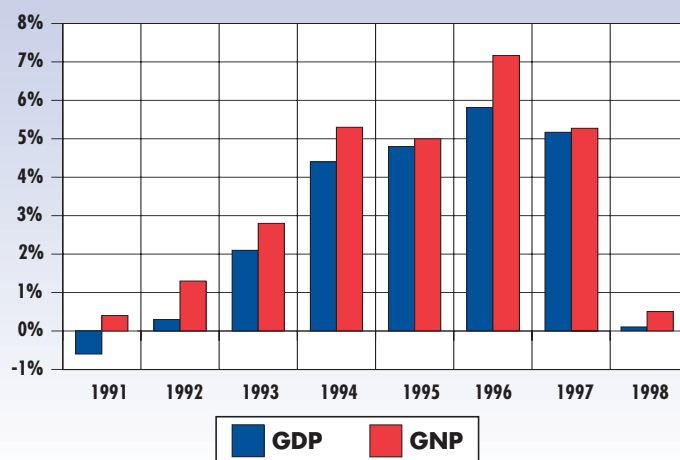
We believe the Philippine economy bottomed out in the first quarter of 1999 and will now see a modest recovery through the rest of the year. The recovery, however, will be weak and will be based mainly on the agricultural sector's bounce back from 1998's weather-related 6.6% output losses. Philippine officials rightly point out that the economy would have recorded positive real growth in 1998 had agricultural output been merely flat. But, equally, 1999 may well see positive GDP growth only because of agriculture's rebound. We expect full-year 1999 GDP to grow between 1.6% and 2.4%.

Both the peso and the stock market have recovered from their September 1998 low points on the back of generally more stable regional currencies, inflows of foreign funds and lower inter-

QTR.-to-QTR. GDP & GNP GROWTH
Seasonally Adjusted Annualized Rates



REAL YEAR-TO-YEAR GDP & GNP GROWTH



est rates. Early May 1999, saw the peso some 2.7% higher than its end 1998 close, while the Philippine Stock Index hit a 22-month high. Agricultural recovery is also leading to slower inflation, which should continue to moderate through the balance of the year. At the same time, the peso's recent strength and inflation in the forecast 8-9% range poses a threat to the competitiveness of Philippine industry and suggests that the peso is more likely to weaken over time. A deteriorating fiscal picture is the most pressing short-term challenge facing the administration. This year's public sector deficit will probably exceed the 3.3% of GDP target. This confronts the government with an unpalatable choice between higher foreign debt or higher domestic borrowings (and resultant higher interest rates).

The challenge now for the Philippines is to lay a firm foundation for a return to the kind of growth (4-6%) it enjoyed before the crisis. This will require a renewed commitment to reforms that address the country's structural weaknesses:

- Continue with tariff reform to open its markets for freer trade;
- Remove barriers that impede foreign investment;
- Expand agricultural and other infrastructure in rural areas;
- Restore fiscal balance by improving tax administration;
- Continue with key reforms in financial markets, power, and telecommunications; and
- Improve transparency and accountability in government.

Output and Inflation

According to preliminary data, 1998 real Gross Domestic Product (GDP) was down 0.5% from 1997, the country's first full year GDP decline in over a decade. Real Gross National Product (GNP) recorded a marginal 0.1% expansion year-on-year, on the continued strength of overseas workers' remittances. On the demand side, economic uncertainties dampened capital spending, which dropped by over 17% from 1997. Personal consumption (up 3.5%) and merchandise exports provided the economy's stimulus, but increased more slowly than before the regional crisis began. On the production side, only services (up 3.5% from 1997) expanded in real terms. Agricultural output was adversely affected by drought and later by typhoons in 1998, causing output to decline 6.6%, the worst annual performance on record. Industrial output also contracted (1.7%), reflecting declines in both construction (8.1%) and manufacturing (1.1%).

The peso's decline, higher financing costs and agricultural supply bottlenecks pushed average year-on-year inflation to 9.7% in 1998, up sharply from 1997's full year average of 5.9%. The twelve-month inflation rate hit an Asian crisis high of 11.6% in January 1999, mainly driven by food costs. Restrictions on food imports exacerbated the effect of supply shortages caused by weather-related crop losses. The twelve-month inflation rate eased in February (9.9%) and March (8.7%) as food supplies and prices stabilized. Barring severe La Niña-related crop losses or further external shocks, inflation for the full year should decelerate to within the government's targeted 8% to 9% range. The government is closely watching recent increases in world crude prices for their potential impact on general domestic price levels.

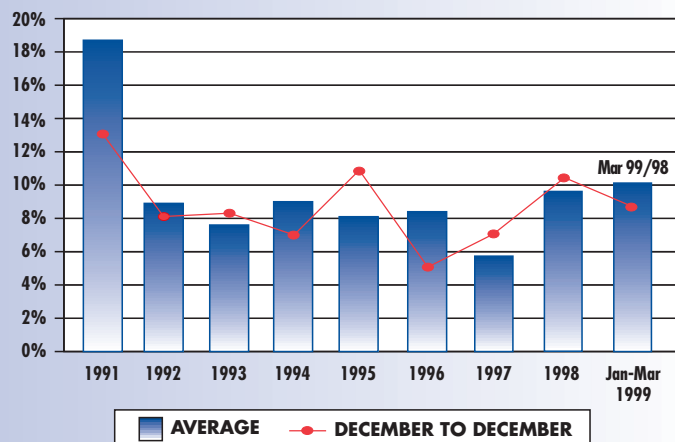
The Philippines should see stronger economic growth in 1999. Our current assessment is for real GDP growth in the 1.6% to 2.4% range, as the agricultural sector rebounds and businesses rebuild depleted inventory levels. The government's successful efforts to bring down domestic interest rates and an expansionary fiscal policy should help boost business and consumer confidence. A sustained recovery, however, will require clear and consistent government support for continued liberalization and market-based reforms.

Labor and Employment

The economic slowdown pushed the Philippines' 1998 full-year unemployment rate (computed as the average of quarterly surveys) to 10.1%. Agriculture (40% of the total jobs) accounted for the majority of job losses. At the same time, statistics also show more companies resorting to consolidation, downsizing or closure. The Department of Labor reported that more than 155,000 workers from 3,000 business establishments were laid off or placed on job rotation schemes during 1998 — more than double the comparable 1997 figures.

Government employment policies have focused on boosting investment — both foreign and domestic — to generate jobs. Job losses and plant closures in the past two years, particularly recently announced moves by a few multinational firms to restructure or close plants in the Philippines, has led Philippine policy makers to consider revisions to the labor code to make it more flexible. Increases in minimum wages (set by regional boards) have barely

CPI YEAR-TO-YEAR CHANGE



* Base Year 1994 beginning 1997 (revised series based on results of Government's 1994 Family Income and Expenditure Survey). Base Year 1988 for data prior to 1997.

kept pace with inflation since the system was established in 1989 and do not meet the typical family's essential needs. At the same time, minimum wages are high enough that a significant portion of the labor force is employed at or near the legal minimum. Non-compliance is widespread.

President Estrada has backed "social accords" between employers' and worker groups that call for "no layoff/no strikes" policies. An activist system for mediating disputes has helped reduce the number of strikes in recent years. There were only 93 strikes nationwide in 1998. The first quarter of 1999 saw only 11 strikes.

Agriculture's recovery is already reducing pressures on the urban job market from economic migrants. In the first quarter of 1999, farm jobs increased by 286,000 (about 2.6%). Projected economic growth rates will, nevertheless, do little to reduce unemployment, given the number of new entrants to the labor force. Many skilled workers in urban areas remain among the 22 percent of workers classed as underemployed.

Financial Markets

The Estrada administration has intensified efforts to reduce domestic interest rates. During the first four months of 1999, Bangko Sentral ng Pilipinas (BSP, the Central Bank) cut required reserves three times by a total of 3 percentage points to 14% (10% statutory and 4% liquidity). Reserve requirements, which were raised to as high as 21% during the early months of the Asian crisis, now stand lower than before the crisis broke in mid-1997. BSP has also increased the share of liquidity reserves (which are invested in market yielding instruments) to help bring down intermediation costs. In successive moves since the start of the year, BSP reduced its key overnight borrowing and lending rates by a total of 3.25 percentage points, the most recent cut announced April 30. At 10.375% and 12.375%, respectively, they are now below pre-crisis levels.

Benchmark Treasury bill rates have continued their downward trend through the first quarter, reflecting financial institutions' excess liquidity and cautious lending policies. The Bureau of Treasury has, at times, withdrawn part or all of the Treasury bills on offer when it deemed bids "too high." With government finances shored up by inflows of foreign loans, the Bureau of Treasury has twice reduced the offered volume of its regular, weekly T-bill auction since the beginning of the year (from P5.5 billion to P4.5 billion currently). The benchmark 91-day T-bill rate had fallen to 10.21% at the end of April, the lowest level since June, 1997.

Banks continue to work under a February 1998, Bankers Association of the Philippines (BAP) agreement to cap lending spreads, currently to 150 basis points (prime) to 650 basis points (non-prime) above 91-day T-bill yields. Commercial banks' quoted prime rates for new loans — which averaged over 30% in early 1998 — had softened to under 17% in late 1998, and to less than 14% by end-April.

Despite the drop in interest rates, there is no sign of credit growth. Outstanding commercial bank loans ended 1998 down 1.9% from end-1997, after growing by over 40% in 1996 and by 29% in 1997. Through February 1998, outstanding commercial bank loans remained flat. Beginning in April 1999, Bangko Sentral exempted new loans from general loan loss provisioning requirements (currently 1.5%) in an effort to stimulate lending. Bankers, however, expect credit expansion to be a gradual process, as risk-averse banks continue working to rebuild the quality of their loan portfolios. They see loan growth in single digits this year.

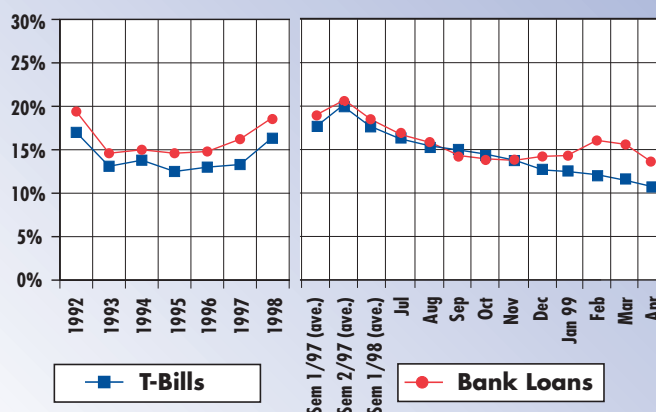
The ratio of commercial banks' non-performing loans (NPLs) to total loans stood at 12.9% as of February 1999, nearly four times the pre-crisis ratio. Restructured loans (about 3.5% of commercial bank loans) have risen to four times the mid-1997 level, as has the level of foreclosed assets. Loan loss provisions stood at 4.3% of total loans, from 1.3% before the Asian crisis. Bangko Sentral officials and industry leaders estimate that commercial banks' NPL ratio could peak at 15%, but this level would not threaten the soundness of the banking system. The overall banking system's capital adequacy ratio increased from 16% (end-1997) to 17.8% (end-1998), higher than the BSP's statutory requirement of 10%. The crisis has so far claimed only one small commercial bank. Smaller thrift and rural banks (which account for about 10% of total banking system assets) have been more severely affected, and about 40 have been taken over by the Philippine Deposit Insurance Corporation since the Asian crisis erupted. The closed banks constitute less than half a percent of the total resources of the Philippine banking system.

To improve the banking system's resilience to further shocks, the BSP has been strengthening prudential safeguards. Measures enacted so far include: lowering the limit on real estate loans (from 30% to 20% of loan portfolio); requiring a 30% liquidity cover for all foreign exchange liabilities of foreign currency deposit units; imposing stricter specific loan loss provisioning requirements; phasing in a 2% general loan loss provision (for loans granted before April 1999); specifying a stricter definition for past due loans; expanding disclosure requirements for publicly listed banks; and tightening the criteria for banks seeking to expand branch networks.

BSP is also encouraging greater consolidation among banks and other financial intermediaries to develop stronger financial institutions. In March 1998, it announced a phased increase in banks' minimum capital requirements through the year 2000. In late 1998, BSP followed with stiffer penalties and a "prompt corrective action program" for capital-deficient banking institutions. An August 1998 BSP circular extended incentives for banks merging or consolidating. At least three agreements for mergers or acquisitions among commercial banks have been formally announced since the beginning of 1999, and a number of other banks reportedly are exploring potential partnerships — a trend which the Bangko Sentral also hopes to see in the thrift and rural banking sectors.

Along with most other Asian markets, the Philippine stock-market has staged a remarkable come-back over the past six months. The

AVERAGE DOMESTIC INTEREST RATES



*As recorded by Bangko Sentral, lending rate refers to ratio of actual interest income to outstanding loans, rather than to banks' quoted rates for new loans. T-Bill rate is weighted average for all maturities.

Philippine Stock Price Index (Phisix) closed 1998 at 1669, up 5.4% from the end of 1997 and up 81% from the six-year low it recorded in September. Further gains in the first four months of 1999 have seen the PHISIX stabilize above the 2000 level. The Phisix broke 2500 in early May, a 22-month high. The current mood is one of cautious optimism but the market remains vulnerable to reversals. Daily trading volumes averaged P1.7 billion through the first 4-1/2 months of 1999 (compared to P2.9 billion before the crisis), but had increased to over P2.5 billion in April. The market's troubles have severely affected the many small brokerage firms. Twenty-three firms are inactive or have suspended operations.

Fiscal Performance

The deteriorating fiscal situation is the most serious problem facing policy makers in the near term. The national government incurred a fiscal deficit of nearly P50 billion in 1998 (1.8% of GNP), reversing four straight years of surpluses from 1994 through 1997. Problems were already evident in 1997, when the national government only achieved a P1.6 billion surplus, through a late year scramble for dividends from the Bangko Sentral and government corporations. Revenues in 1998 declined by 2% (P9 billion) from actual 1997 collections, depressed by a lethargic economy and falling imports (tariffs represent a fifth of revenues). Government expenditures increased by 9% (over P40 billion) in nominal terms — roughly matching inflation due to increases in personnel, operations, and debt service costs. The consolidated public sector deficit (CPSD) — which includes the Bangko Sentral, government-controlled corporations, and government-administered social security agencies — ended 1998 at P80.7 billion (2.9% of GNP), more than three times the 1997 CPSD (1% of GNP).

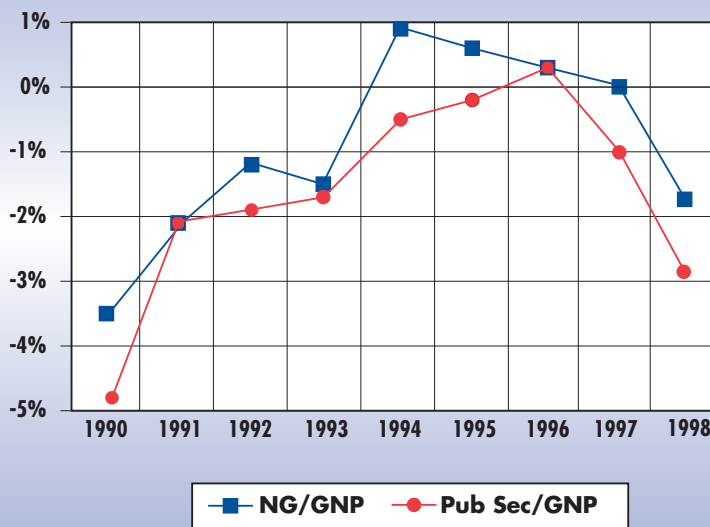
With the encouragement of the International Monetary Fund, the 1999 government budget anticipates a larger deficit as part of efforts to spur the economy's recovery. The budget calls for a national government deficit of P68.4 billion (2.3% of GNP) and a consolidated public sector deficit of up to P95 billion (3.3% of GNP). The national government's fiscal program calls for a 13% (P59.4 billion) expansion in national government revenues and a 15% (P77.8 bil-

lion) expansion in expenditures. Difficulties have already begun to emerge. Revenue collections during the first quarter of 1999 were 8% (P9.3 billion) short of target, and only 1.4% higher than January to March 1998 collections. Higher non-tax inflows partly offset disappointing tax collections. Furthermore, the government's 1999 budget included P7 to P8 billion from new measures that require congressional approval. None has yet passed Congress. Government officials are looking at interest savings from lower-than-expected domestic interest rates to partially offset revenue shortfalls during the year, but the situation remains problematic. The government's medium-term fiscal policy projects gradually declining deficits, beginning in 2000, and a balanced budget in 2003.

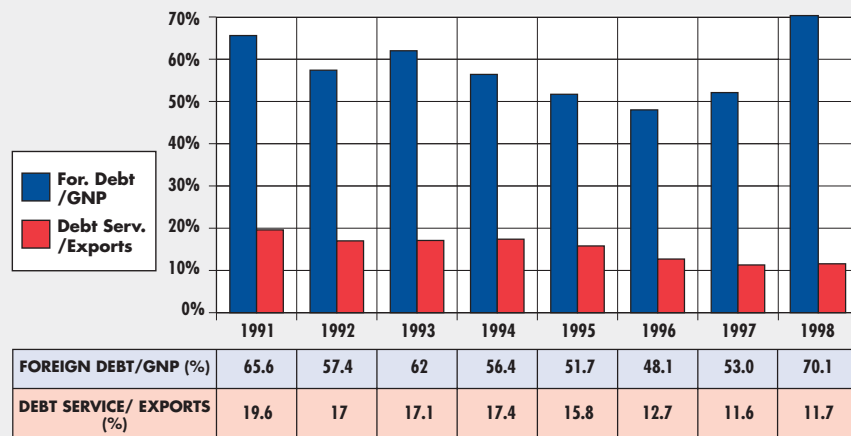
Weak public finances have been a long-standing problem. Although there have been some improvements, weak tax administration and enforcement remain a major concern. The main revenue agencies are widely acknowledged to be corrupt and major tax evasion cases have languished in the courts. One study estimated that about half of value added and personal income taxes, and about 40% of corporate income taxes, escape collection. The government has had to rely on new revenue-generating measures to make up for weak collection and enforcement (among them, higher taxes on stock transactions, a minimum 3% tariff, increases in government fees and charges, and an expanded value added tax). A Comprehensive Tax Reform Program (CTRP) — completed in late 1997 — was designed to improve the longer-term sustainability of government finances through reforms in excise and income taxation. However, it has yet to significantly widen the tax base or improve tax enforcement. Short-term measures, such as the proposed tax amnesty and the ERAP program (exempting taxpayers from audits as long as their tax payments in 1999 exceed 1998 payments by 20%) do not send the appropriate signal that the government is serious about improving collection efforts.

Efforts to contain expenditures are hampered by the fact that over 70% of spending goes for payroll costs, interest and transfers to local government. The government simply does not have the money needed to seriously address the nation's many needs in health care, education and infrastructure. Efforts to restructure the bloated bureaucracy will be politically difficult in an environment of high unemployment.

**PUBLIC SECTOR & NG SURPLUS/DEFICIT
AS % OF GNP**



FOREIGN DEBT RATIOS



Foreign Debt and Debt Service

As part of the overall strategy to keep pressure off domestic interest rates, the government is relying more heavily on foreign financing to fund the 1999 budget. The national government has already issued more than \$1.5 billion worth of bonds in international capital markets since the beginning of the year, including Asia's first eurocurrency-denominated bond float (\$350 million). Bangko Sentral has also raised \$400 million from the international capital markets, both to widen its international reserve cushion and to retire some of its short-term obligations.

The Philippines technically graduated from over three decades of International Monetary Fund (IMF) supervision in March 1998, but promptly entered into a two-year "precautionary" arrangement due to the regional currency crisis. The Estrada administration converted this program to a regular \$1.4 billion standby agreement in August 1998. The government drew \$540 million from the IMF standby facility between November 1998 and February 1999.

The Philippines also expects to receive financial assistance from other bilateral and multilateral creditors, such as the Asian Development Bank, the World Bank, and Japan's Overseas Economic Cooperation Fund. The 22nd Consultative Group meeting held in Tokyo in March 1999 yielded an estimated \$4.5 billion in pledges from multilateral and bilateral bodies — including \$1.7 billion under the Miyazawa fund framework. The government is also developing plans to tap between \$500 million to \$1 billion of Japan's recently created Obuchi fund. The Philippines, however, has a very poor record in its implementation of development assistance projects, an issue raised by many donors at the Consultative Group meeting. The Department of Budget and Management, has created a "one-stop shop" for donor-funded projects in an effort to accelerate implementation.

The Philippines' recorded foreign debt was \$47.8 billion as of end-1998, a level which is expected to rise due to the government's current foreign borrowing thrust. External obligations of the private non-bank sector were estimated at \$12.6 billion, 27% of total external liabilities. Bilateral and multilateral creditors accounted for an estimated 49% of the outstanding foreign debt level. The bias for medium- to long-term maturities — over 80% of obligations — has helped the Philippines avoid the difficulties experienced by neighboring economies. Observers nevertheless emphasize that

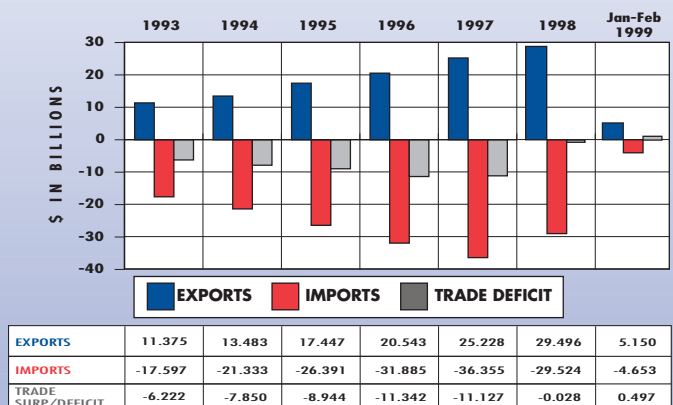
foreign borrowings should be carefully managed to avoid maturities bunching up in later years.

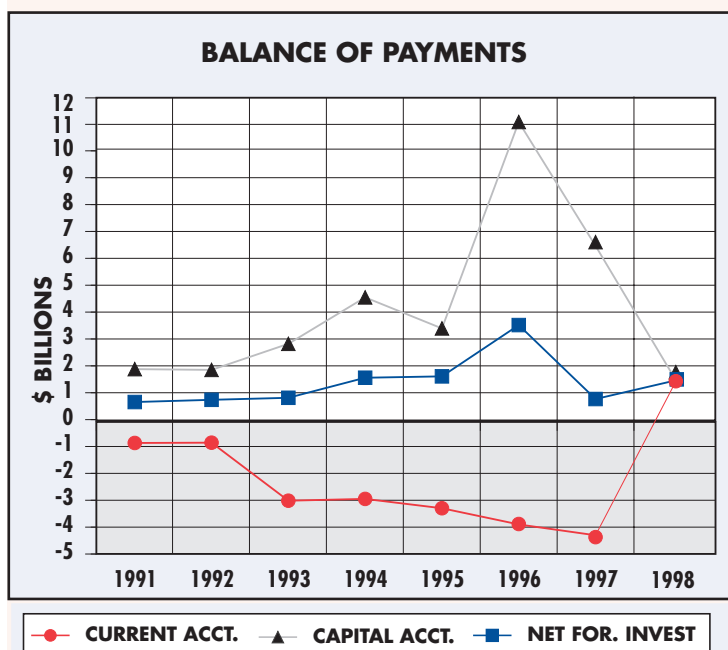
Although the foreign debt stock has been increasing, foreign debt servicing — which peaked at close to 40% of merchandise and service export receipts during the early 1980s — is no longer a severe problem. Debt service payments equaled 11.7% goods and services exports in 1998. Only rapid export growth prevented a rise in the debt service ratio. Continued heavy reliance on external borrowing is not a viable long-term strategy.

Merchandise Trade and Balance of Payments

Strong export growth and slower imports dramatically reduced the merchandise trade gap from \$11 billion in 1997 to only \$28 million in 1998. Merchandise imports dropped by nearly 19% from 1997 because of a weaker peso, tight credit, and a lethargic economy. Imports of capital goods (41% of 1998's import bill) dipped 16% from 1997, while imports of raw materials and intermediate inputs (39% of 1998 merchandise imports) slumped by 39%. Merchandise exports grew 17% in 1998 over 1997. This was a deceleration from the steaming 23% growth recorded in 1997, but was the fastest growth rate in Asia. Electronics and computer

MERCHANDISE TRADE





peripherals accounted for almost all of the export growth and now represent nearly two-thirds of all exports.

Preliminary January to February 1999 trade statistics show merchandise exports up more than 18% year-on-year. Imports — down almost 13% from the first two months of 1998 — are off to a slow start. The Philippines posted consecutive monthly trade surpluses from June 1998 to February 1999. Although imports may begin picking up (partly to replenish low inventories), the Philippines appears headed for a full year 1999 trade surplus — the Philippines' first such surplus in 25 years.

Despite lower remittances from overseas workers (down from \$5.8 billion in 1997 to \$5.2 billion in 1998), the improved merchandise account produced a \$1.3 billion (1.9% of GNP) current account surplus in 1998, the first surplus in 2 years. The overall balance of payments (BOP) reverted to a \$1.4 billion surplus in 1998 (from a deficit of \$3.4 billion in 1997). The government expects a current account surplus, larger net inflows of foreign financing, and improving investor confidence to keep the country's overall BOP in the black in 1999. Preliminary estimates — computed from the change in BSP net international reserves —

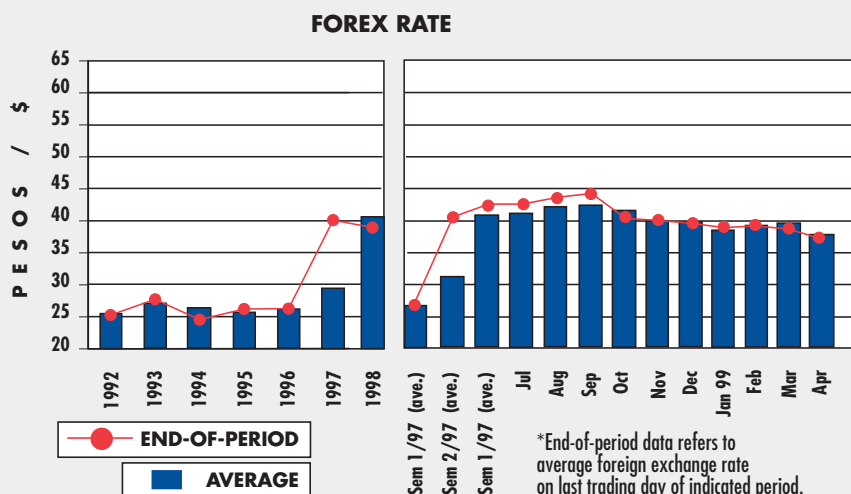
placed the country's overall BOP position at a surplus of \$1.9 billion during the first quarter of 1999 (already larger than the government's full-year forecast of \$1.6 billion).

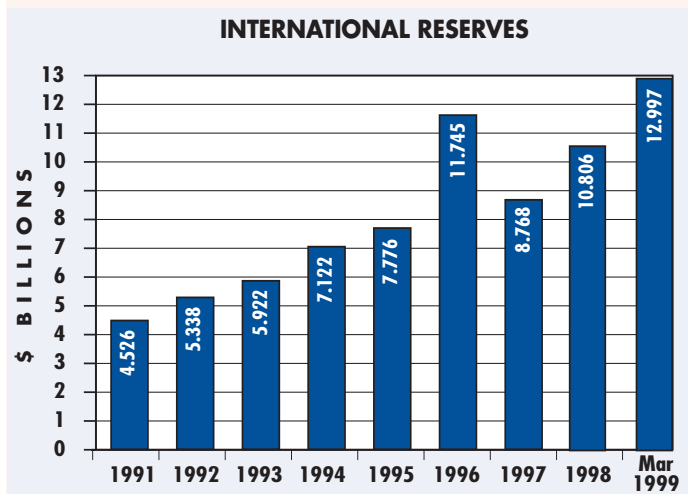
Foreign Exchange Rate and International Reserves

The peso has strengthened since a new round of jitters in world markets sent the peso tumbling to a 1998 low of P44.66/US\$ in late September. From mid-November 1998 to mid-April 1999, the peso consistently traded above P40/US\$. March and April 1999, saw a strengthening further to around P38/US\$. The peso's stability and modest appreciation since the beginning of the year reflects a combination of relatively calmer regional currency markets, net inflows of foreign financing, a widening international reserve cushion, and still weak import demand. The Philippines, however, continues to experience higher inflation than most of its ASEAN partners, suggesting that the peso will need to weaken over time to retain the competitive position of Philippine industry.

The BSP has been building up its international reserve cushion after reserves dipped to an end-1997 level of P8.8 billion (a level barely adequate for 1.9 months worth of goods and services imports). BSP international reserves — which Bangko Sentral built-up to \$10.8 billion by the end of 1998 (3 months worth of imports) — had risen further to a record month-end high of nearly \$13 billion as of end-March 1999 (more than 3.5 months worth of imports). BSP's focus on measuring the adequacy of reserves in terms of months of import cover understates the strength of the Philippines' position. The changing nature of Philippine trade and the growth of electronics exports has increased imports of components for processing and re-export. These imports are "self-financing" in that they enter only in response to export orders that will pay for them.

The expansion of international reserves since the beginning of the year mainly reflected foreign loan proceeds (estimated at more than \$2 billion) and BSP net purchases of foreign exchange (about \$1 billion). Considered "secondary" reserves, Bangko Sentral also estimated that banks' foreign currency deposit units (FCDUs) had about \$14.5 billion in foreign currency deposits as of January 1999 — with 84% representing deposits of Philippine residents.





Challenges and Prospects

We expect the Philippines to be one of the first countries to recover from Asia's crisis. The present evidence suggests, however, that the recovery will be weak. In these circumstances, the challenge and opportunity facing the country — long tagged as one of Asia's laggards — is to move ahead of its more distressed neighbors to sustained economic expansion. To do so, the government must build on market-based reforms, address structural problems, and continue trade and investment liberalization policies.

Improving longer-term fiscal stability remains among the Philippines' most important challenges. Weak tax administration/collection and a bloated bureaucracy continue to impede the delivery of essential services — notably in health care and education — and much-needed improvements to the country's infrastructure. Taxes in the Philippines are a lower share of GDP than in most of its ASEAN partners and the revenue that is collected is poorly spent. After transfers to local governments and government-owned firms, most (60%) of the national government's remaining budget goes for personnel-related outlays.

Continuing vulnerabilities in the balance of payments also could limit the Philippines' ability to break away completely from the boom-and-bust growth pattern of the past. The recent BOP surpluses reflect foreign borrowings and the contractionary impact on imports of a weak economy. In the 1980s, the Philippines learned painfully that it cannot indefinitely rely on foreign borrowings to finance domestic investment. The Asian crisis has also clearly demonstrated the disruptive effects of skittish portfolio capital.

The Philippines has been very successful in attracting investment from foreign electronics firms producing for export markets. At the same time, globalization and regional trade liberalization have led some firms to rationalize production on a regional basis. The government needs to examine realistically its strengths and weaknesses as an investment location and focus its investment promotion efforts on those sectors — like electronics — where it has a real competitive advantage. At the same time, it should address those areas where the country is at a disadvantage to its neighbors. Investors cite inadequate infrastructure, the high cost of doing business (among them, power rates and transport costs), the government bureaucracy, and the capricious legal system as major areas requiring improvement. The government should also move aggressively to open up those sectors of the economy where local monopolies have long inflated costs for consumers and other businesses. The goal should be a more efficient economy, not the protection of entrenched interests.

Agriculture is in serious trouble in the Philippines. It accounts for nearly 40% of employment, but only 20% of output. Policies intended to protect farmers and restrict imports of agricultural commodities have resulted in the highest food costs in the region, raising labor costs and reducing the living standards of the poorest. Philippine sugar prices are nearly as high as those in Europe and the U.S., yet the industry is unprofitable and its workers amongst the poorest Filipinos. Agrarian reform seeks to redistribute large land holdings to small farmers, but essential support services (such as farm-to-market roads, processing and marketing facilities, credit delivery) are inadequate. The Estrada administration hopes to address these concerns through its Agricultural Modernization and Fisheries Act, which envisions a holistic approach to agricultural sector development. However, the success of the program — as well as the government's more general goal of decongesting major cities by making other areas attractive business sites — also relies heavily on the state of government finances.

Education is another area that needs more attention. The Philippines' pool of educated English-speaking labor remains a major asset for foreign firms seeking an Asian production base and foreign managers give high marks to the productivity of Filipino workers, but unskilled workers face fierce competition from emerging lower-wage economies. The large numbers of young people (over half the population is under age 20) will require improved education and skills if they are to compete for higher-skill jobs. Most observers believe the lack of funding has already had a serious impact on primary and secondary education.

Although the Philippine banking system is less stressed than its neighbors, the Bangko Sentral needs to address weaknesses in oversight laid bare by the financial crisis. These challenges include moving to a more comprehensive risk-based framework, improving disclosure requirements and transparency, and strengthening offsite supervision and monitoring. Domestic savings remain lower as a share of GDP than in other ASEAN countries, depriving business of the capital crucial to sustaining economic growth. Current government efforts to make longer-term government bonds more accessible to small savers and an ongoing review of taxes on financial instruments are important, positive steps. Additional work needs to be done to deepen and strengthen capital markets, including the contractual savings sector (pensions and insurance).

Finally, income distribution remains highly skewed, which calls for determined efforts to spread the benefits of economic growth more widely.

PROJECTIONS FOR 1999: SELECTED INDICATORS

	1998 Actual	1999 Projections ^a
GDP Growth (Year-on-year, %)	(0.5)	1.6-2.4
GNP Growth (Year-on-year, %)	0.1	2.1-2.9
Average Year-on-Year Inflation (1994=100, in %)	9.7	8.0-9.0
Average 91-day T-bill rate (%)	15.3	10.5-11.5
Average Forex Rate (Pesos/\$)	40.89	38.50-40.00
Exports (\$ Billions)	29.50	33.8
Growth (Year-on-year, %)	16.9	14.5
Imports (\$ Billions)	29.52	32.2
Growth (Year-on-year, %)	(18.8)	9.0
Trade Bal. (\$ Billions)	(0.08)	1.6

^aEmbassy projections as of April 1999

Sources (1998 data): National Economic and Development Authority; Bangko Sentral ng Pilipinas

PHILIPPINES: KEY ECONOMIC INDICATORS

(In Million USD, unless otherwise noted)

	1997	1998	1999 ^p	
Domestic Economy				
Population (millions)	71.8	73.5	75.2	
Population growth (%)	2.32	2.32	2.32	
GDP (current) ^{a/}	82,241	65,111	-	
GNP (current) ^{a/}	85,744	68,215	-	
Per Capita GDP, current dollars ^{a/}	1,145	886	-	
Real GDP (% change, yr.-on-yr.)	5.2	(0.5)	-	
Real GNP (% change, yr.-on-yr.)	5.3	0.1	-	
Consumer Price Index (ave. % change, yr.-on-yr.) 1994=100	5.9	9.7	10.1	Jan-Mar
Production, Employment, Fiscal Accts.				
Labor force (millions)	30.4	31.1	31.2	Jan
Unemployment rate (%) ^{b/}	8.7	10.1	9.0	Jan
Industrial prod. (1985=100), % change yr.-on-yr.	6.1	(1.7)	-	
Nat'l gov't budget surplus (deficit) ^{a/}	53	(1,222)	865	Jan-Mar
as % of GNP	0.1	(1.8)	-	
Consolidated public sector surplus (deficit) ^{a/}	(816)	(1,973)	-	
as % of GNP	(1.0)	(2.9)	-	
Interest Rates (%)				
Average T-bill rate ^{h/}	13.30	16.30	12.58	Jan-Apr
Average bank loan rate ^{c/}	16.22	18.39	15.27	Jan-Apr
Balance of Payments				
Exports (FOB)	25,228	29,496	5,150	Jan-Feb
Growth (% , yr.-on-yr.)	22.8	16.9	18.6	Jan-Feb
Imports (FOB)	36,355	29,524	4,653	Jan-Feb
Growth (% , yr.-on-yr.)	14.0	(18.8)	(14.2)	Jan-Feb
Trade Balance	(11,127)	(28)	(497)	Jan-Feb
Current Account balance	(4,303)	1,294	-	
as % of GNP	(5.1)	1.9	-	
BOP surplus/(deficit)	(3,383)	(1,346)	-	Jan-Mar
Net foreign investment flows ^{d/}	762	1,672	-	
Foreign Debt, as of end of period ^{e/}				
Debt service paid	5,597	5,061	-	
Debt service (% of exports of goods and services)	11.6	11.7	-	
BSP International Reserves				
	8,768	10,806	12,997	Mar
Exchange Rate (pesos/\$)				
Average exchange rate	29.47	40.89	38.24	Jan-Apr
Closing exchange rate ^{f/}	40.12	39.14	37.96	Apr
Foreign Direct Investment (BSP registrations) ^{g/}				
Total (cumulative, since 1973)	8,420	9,305	-	
U.S. (cumulative, since 1973)	2,479	2,722	-	
U.S. share (%)	29.4	29.2	-	
U.S.-Philippine Trade (Phil. data)				
Philippine exports to U.S., FOB	8,815	10,100	1,504	Jan-Feb
Growth (% , yr.-on-yr.)	26.5	14.6	3.4	Jan-Feb
Philippine imports from U.S., FOB	7,928	6,424	999	Jan-Feb
Growth (% , yr.-on-yr.)	34.1	(19.0)	(19.3)	Jan-Feb
Philippine trade balance with U.S.	887	3,767	505	Jan-Feb
U.S. share of Philippine imports (%)	21.8	21.8	21.5	Jan-Feb

^{a/} originally peso values, converted to USD; ^{b/} average of quarterly surveys (Jan/Apr/Jul/Oct); ^{c/} computed as the ratio of banks' actual interest income to outstanding loans (rather than quoted rates for a given period); ^{d/} direct and portfolio; ^{e/} since 1994, excludes "net due to" accounts of foreign commercial banks; ^{f/} average on last trading day of indicated period; ^{g/} principally exercised to enable forex purchase from the banking system for capital repatriation and profit remittances; ^{h/} weighted average for all maturities; ^{p/} preliminary

Sources: National Economic and Development Authority; Department of Finance; Bangko Sentral ng Pilipinas